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PENNSYLVANIA BUSINESS SURVEY

College of Business Administration The Pennsylvania State University **April 1986**

ECONOMY SPINS ITS WHEELS IN FEBRUARY
Manufacturing Still a Problem

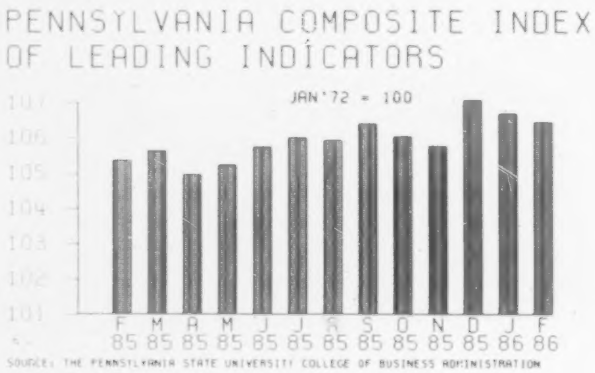
Despite the fact that resident employment rose to a new record for the second consecutive month in Pennsylvania and the unemployment rate dipped below the nation's for the first time since June 1982 (see chart), **the overall performance of the Commonwealth economy was sluggish in February.** All of the weakness can again be traced to the goods-producing sectors of the economy.

Evidence of this is found in the 0.3 percent decline in the index of coincident indicators, which is positively correlated with current economic trends. While one component of the index, resident employment, rose to 5.22 million after seasonal adjustment, the other two, factory job levels and real earnings in the manufacturing sector, declined. **The decline in factory job levels to a record-low 1.07 million after seasonal adjustment is especially disappointing coming on the heels of two consecutive monthly gains, dashing, at least for now, hopes for a prolonged moderation of job losses in the manufacturing sector.**

A decline in another indicator of manufacturing's health, the average factory workweek, from a seasonally adjusted 40.4 to 39.6 hours, led to the second straight monthly decline in the index of leading indicators. The other two components of the index, which are not measures of manufacturing activity, moved positively in February. Residential construction contract awards rose in value a seasonally adjusted 25.3 percent to $363.1 million. Surely, much of the increase was due to declines in mortgage rates. (Increases in nonresidential building and in nonbuilding contract values, which are not components of the index, also rose, resulting in a seasonally adjusted 49.7 percent increase in total awards to $863.5 million.) Initial claims for unemployment benefits, an indicator of future trends in the number of unemployed, fell during the month after two straight gains.

The behavior of the leading and coincident indexes over the past several months suggests that **the economy is moving ahead at a fairly slow pace, with more of the same expected for the near future.**

Other measures of manufacturing's strength also contributed to the overall sluggish growth in the sector. Total hours worked and weekly payrolls took a tumble in February. Electricity sales to industry also fell slightly during the month. The minimal increase in steel output in Pennsylvania mills, a seasonally adjusted 0.9 percent on an average daily basis, is not anything to get excited about. **It appears that the most we can expect from steel this year, and from manufacturing in general, is a cessation of job losses as opposed to any rebound.**


PENNSYLVANIA COMPOSITE INDEX
OF LEADING INDICATORS
JAN'72 = 100
107
106
105
104
103
102
101
F M A M J J A S O N D J F
85 85 85 85 85 85 85 85 85 85 85 85 86 86
SOURCE: THE PENNSYLVANIA STATE UNIVERSITY COLLEGE OF BUSINESS ADMINISTRATION

Economic theory tells us that durable goods industries are usually hit harder than nondurable goods industries during times of economic slack. Durable goods are more responsive to changes in the economy since they constitute major investment items which can be done without. Nondurable goods are less sensitive to economic changes since they tend to be items which cannot be readily done without. The accompanying chart shows that during the past four months, job losses from year-ago levels in durable goods industries have been considerably larger than in nondurable goods. However, the percentage decline in all of 1985 was slightly

PA AND U.S. UNEMPLOYMENT RATES, FEB '85–FEB '86
(seasonally adjusted; percent)

PA MANUFACTURING JOB GROWTH, FEB '85–FEB '86
(percent change from year-ago month)

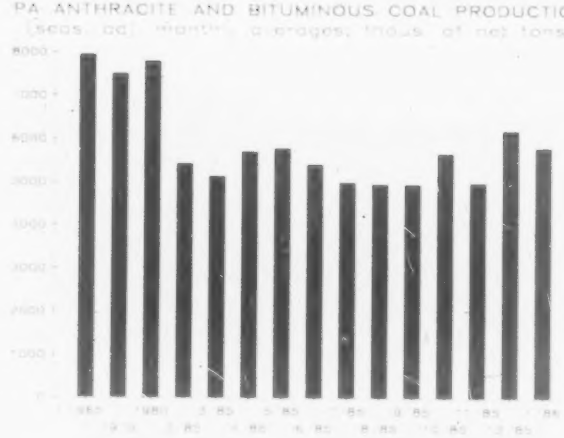
higher in nondurable goods industries. Still, when looked at over the course of the business cycle, say, from 1979, the decline in durable goods has indeed been significantly larger than in nondurable goods.

The mining industry continues to have its share of problems. As shown in the accompanying chart, output from Pennsylvania coal mines has dropped considerably over the past several years. Along with declining production,[1] job

Economic Activity in Pennsylvania	UNADJUSTED DATA			SEASONALLY ADJUSTED DATA			SEASONALLY ADJUSTED INDEXES (1977 = 100)		
	1986		1985	1986		1985	1986		1985
	Jan	Feb	Feb	Jan	Feb	Feb	Jan	Feb	Feb
Pennsylvania Industries									
All nonagricultural industries									
No. of wage and salary jobs (thous.)	4,711*	4,712	4,612	4,797	4,801	4,700	105.4	105.2	102.9
Nonmanufacturing									
No. of wage and salary jobs (thous.)	3,646*	3,653	3,512	3,722*	3,732	3,591	115.5	115.8	111.4
Manufacturing									
No. of wage and salary jobs (thous.)	1,063*	1,058	1,098	1,075	1,069	1,109	80.1*	79.6	82.6
Ave. wkly. hrs. worked by prod. workers	40.0	39.6	39.7	40.4	39.6	39.9	102.2	100.6	100.9
Total wkly. person-hours worked (mils.)	28.8*	28.4	29.6	29.4*	28.8	30.1	76.5*	75.1	78.4
Total wkly. payroll (mil. dols.)	278.6	276.0	282.5	285.1	279.3	285.9	126.9	124.3	127.2
Steel production (thous. tons)	955*	994	1,007	n.a.	n.a.	n.a.	45.0*	45.3	46.1
Industrial electric power sales (mil. kwh)	3,468	3,515	2,653	3,525	3,464	3,599	95.4	93.8	97.4
Mining									
Anthracite coal (thous. net tons)	306	284	279	360	351	343	73.7	71.8	70.1
Bituminous coal (thous. net tons)	5,014	n.a.	4,558†	5,438	n.a.	4,920†	77.1	n.a.	69.8†
Construction contracts awarded (mil. dols.)									
Total	361.5	484.6	300.7*	576.8	863.5	556.7*	179.3	268.4	176.1*
Residential building	139.0	166.6	132.6*	289.9	363.1	290.2*	206.0	258.0	206.2*
Nonresidential building	89.7	135.4	118.3*	102.2	226.6	201.3*	94.2	208.9	185.6*
Nonbuilding (utilities and public works)	132.8	182.6	49.9*	184.8	273.8	75.2*	255.0	377.7	103.7*
Employment of Pennsylvania Residents									
Employed, no. of persons (thous.)	5,033	5,040	4,863	5,150	5,215	5,031	107.2	108.5	104.7
Unemployed									
No. of persons (thous.)	444	451	499	427	398	444	106.5	98.5	110.7
Rate (percentage of labor force)	8.1	8.2	9.3						
Rate, seasonally adjusted				7.5	7.1	8.2			
Civilian labor force, no. of persons (thous.)	5,477	5,491	5,362	5,577	5,610	5,475	107.1	107.8	105.2
Initial claims for unemployment benefits	189,342	105,731	113,932	129,099	121,240	130,694	90.2	84.7	91.3

Consumer Prices, all items	Urban Indexes (1967 = 100)			Percentage Change	
	1986		1985	Month Ago	Year Ago
	Jan	Feb	Feb		
U.S. city average	328.4	327.5	317.4	-0.3	+3.2
Philadelphia	320.3	320.1	309.2	-0.1	+3.5
Pittsburgh	n.a.	330.1	323.8	n.a.	+1.9
Northeast PA	311.6	n.a.	301.5†	n.a.	+3.3

NOTES: Data on employment, payrolls and hours have been revised to first quarter 1985 benchmarks.
† Total includes workers on strike. * = figure revised. † = figure for January 1984. n.a. = data not available.
SOURCES AND DEFINITIONS OF DATA ARE AVAILABLE ON REQUEST.



levels have been hovering at or near all-time lows in the industry as of late. In that Pennsylvania coal is a major input in the production of steel, the slump in the primary metals industry has contributed greatly to the coal industry's weakness.

Despite the weakness in mining, **nonmanufacturing activity continued on an upward trend.** Job levels rose to a record-high 3.73 million after seasonal adjustment, the 13*th* consecutive monthly gain. As has been the case of late, increases in the services-producing industries contributed greatly to the job gain.

The decline in the Commonwealth's unemployment rate from a seasonally adjusted 7.5 percent in January to 7.1 percent in February comes as a surprise to many, especially in light of the 0.6 percentage point rise at the national level to 7.3 percent. However, a change in important questions in the *Current Population Survey*, from which the numbers are derived, and abnormal conditions in certain regions of the nation surely played a large role in February's volatile employment/unemployment statistics. Data released over the next few months will probably correct for February's surprising trends.

February was far from rosey at the national level. Employment, capacity utilization, and housing starts all fell. (However, housing starts still stood at a healthy 1.99 million on an annual basis.) Consumer spending was sluggish. Hopefully, the decline in consumer prices suggests that falling oil prices are working their way through the economy. If so, the Federal Reserve will have a bit more room to ease credit conditions without risking a surge in inflation.

William D. Anderson

Job Growth in Pennsylvania by Establishment Size

The Pennsylvania economy is currently going through a period of major structural change. Increases in the contributions of nonmanufacturing establishments such as services, trade, and finance to total economic growth and deteriorations in the role of most manufacturing industries are well documented. Another related area in which change is occurring in the Commonwealth's economy is in the relative importance of small versus large establishments as engines of job growth.

Data taken from *County Business Patterns* show an increase in the relative importance of small establishments between 1974 and 1983 (the last year for which data is available) in Pennsylvania. As shown in the accompanying table, close to 25,000 jobs were lost in Commonwealth establishments over the period for a 0.6 percent decline. However, all of the decline occurred in establishments with at least 250 workers where 239,000 jobs were lost. By far, the largest loss came in establishments employing 1,000 or more.

Establishments with less than 250 workers gained 215,000 jobs between 1974 and 1983. Each of the six categories within this group realized a job increase over the period, with the largest absolute gain coming in establishments with 50-99 employees.

Pennsylvania Employment Growth by Establishment Size

Establishment Size (number of employees)	Employment 1974	Employment 1983	1974-1983 Change no.	1974-1983 Change pct.
TOTAL	3802316	3777813	-24503	-0.6
1-4	232726	239174	6448	2.8
5-9	262164	310307	48143	18.4
10-19	335698	376917	41219	12.3
20-49	510184	532276	22092	4.3
50-99	406712	457738	51026	12.5
100-249	537058	582723	45665	8.5
250-499	420743	379036	-41707	-9.9
500-999	366543	324131	-42412	-11.6
1,000 +	730488	575511	-154977	-21.2

Source: U.S. Dept. of Commerce, Bur. of the Census

The job gains in the smaller establishments in Pennsylvania over the 1974-1983 period resulted in an increase in their share of total employment (see chart). Collectively, establishments with fewer than 250 employees saw their share increase from 60.1 to 66.2 percent. Each of the six categories within this group realized a gain in employment share. The largest advance, 1.4 percentage points, occurred in those establishments with 50-99 workers.

The three largest categories saw their collective share fall from 39.9 to 33.8 percent. Nearly two-thirds of that decline occurred in establishments with at least 1,000 workers.

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(This is a brief summary of an analysis of job growth according to establishment size at the industry level in Pennsylvania over the 1974-1983 period. The availability of the paper will be announced in an upcoming issue of the Survey.*)*

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